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S E C R E T SECTION 01 OF 02 WARSAW 000183

SIPDIS

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TAGS: KGHG SENV EPET ENRG EUN PL
SUBJECT: POLISH ENERGY PRIORITIES: GAS SECURITY STRATEGY

REF: A. WARSAW 1450
¶B. WARSAW 139
¶C. WARSAW 146
¶D. WARSAW 122

Classified By: DCM Quanrud for Reasons 1.4 (b) and (d).

¶1. (C) Poland's new energy security strategy has still not been released from the Prime Minister's Office, but after over a year in power, PM Tusk has announced most of his key priorities. In an important policy change, the government is embracing gas interconnections -- including to the German grid -- which gives their calls for a common EU energy security policy (including gas-sharing and upstream engagement) greater cohesion and credibility. The government also continues to pursue domestically controlled energy projects inherited from its predecessors, such as the planned LNG terminal and cleaner coal. The recent gas crisis re-focused Polish attention on the strategy, as they contemplate new EU constraints on carbon emissions, contract negotiations with Gazprom, and alternatives to reliance on coal and imported gas, such as nuclear power. The government's energy security priorities are increasingly regional, reflecting Poland's concern that their European partners' dealings with Russia are too constrained by their dependence on Russian energy exports.

Interconnections and EU Solidarity

¶2. (C) The recently announced (but still unpublished) energy security strategy includes support for gas interconnections, an important policy shift. The GoP now supports interconnections, not only North-South (Czech, Slovak and Baltic) but, critically, connections to Germany. Longtime Polish calls for EU solidarity and insistence on an EU-wide response mechanism in the event of national supply disruptions lacked credibility because of the Poles' simultaneous resistance to the interconnections needed to make that solidarity meaningful. The strategy still includes Skanled interconnections through Denmark to Norwegian supplies, but Norwegian and industry contacts continue to dismiss the project's viability, despite recent promise of EU funds.

¶3. (C) Greater Caspian engagement by the EU has been a political priority for the GoP. However, they have been unable to support alternative supply routes because there is no way for Poland to participate meaningfully without interconnections. The interconnections announcements in January were accompanied by proclamations of increased commitments to Nabucco, although concrete measures have yet to be seen. This also signaled a change in the Polish position concerning the Russian-German pipeline Nordstream. While the GoP still opposes Nordstream, they no longer argue

that endorsing interconnections amounts to support for Nordstream and a bilateral rather than common EU approach; the shift means Poland will no longer hold up other projects simply to spite Nordstream. The Ministry of Economy recently announced a German visit to Poland to discuss interconnections in late February/early March. Contacts at the country's state-run oil and gas company (PGNiG) continue to quietly oppose interconnections, but political leadership is behind the shift which is reflected in Poland's EU negotiating priorities (REF B).

LNG: Domestic Control Still Important

¶4. (SBU) The 2.5 bcm/year liquefied natural gas facility planned for Poland's northeast coast is clearly a priority for the government. Launched under the previous administration and taken on by PM Tusk as a flagship of his energy security strategy, the facility was planned for a 2011 opening but has run into delays, and officials now talk about a 2013 operating date. Industry contacts report that the permitting process has been botched by the engineering firm hired to manage the feasibility, planning and permit phases. (Note: Local permitting procedures are very difficult. Local red tape impedes all infrastructure projects, most notoriously road development.) The GoP has also been unable to secure long-term contracts to supply the facility, despite high-level efforts including a fall 2008 Qatar trip by PM Tusk. Given the commercial uncertainties surrounding the project, the government will keep it 100% state-owned, leaving it in the hands of distributor Gaz-System. Even if the project will not operate at full supply (assuming

pipeline gas is cheaper than LNG) the GoP plans to run it as close to break even as possible in order to have a viable alternative in the event of a crisis.

Negotiations With Gazprom

¶5. (SBU) Poland is in ongoing negotiations with Gazprom regarding their supply contracts set to expire the morning of January 1, 2010. On the table is their transit pricing arrangement for the Yamal Pipeline to Germany and local supply prices which are already in line with European formulas. The Poles hope to get a direct deal with Gazprom and remove RosUkrEnergo (RUE) or any other intermediary that may be dreamt up by Gazprom. While in Davos, Tusk invited Putin to Poland some time this Spring, with gas negotiations on the tentative agenda (REF C). Gazprom only recently agreed to temporarily cover RUE commitments through Ukraine, which had been cut off since the gas crisis began in early January.

An Overview of Current Gas Supply

¶6. (SBU) Poland uses about 15 billion cubic meters (bcm) per year, averaging around 40 million cubic meters (mcm) per day - but with a wide daily range (15 - 60 mcm), depending on weather conditions and production cycles for products such as fertilizer. Gas represents roughly 13% of total energy usage. About 70% of gas used is imported, of which about 90% passes through Russia. On paper, some of this gas is bought from Caspian producers, but Gazprom ultimately controls all Polish supply from the east, which flows overwhelmingly through Belarus and Ukraine. The remaining 10% of imported gas comes in from Germany. In total, Gazprom controls just over 60% of total gas usage representing just under 10% of total energy demand. The recent gas crisis cut off about 25% of Poland's supply, but this was easily compensated by reserves and rerouting.

¶7. (SBU) Domestic production meets about 30% of current demand, and more or less equals household consumption

(including critical home heating). There are plans to expand reserve capacity from about 40 days of total average demand (1.66 bcm), to roughly 60 days. These reserves are routinely replenished during low-use summer months and drawn down in colder weather. The recent gas crisis tested the reserve system when Poland lost about 25% of its supply, but this was easily compensated by tapping reserves and rerouting through Belarus. Future restrictions on carbon emissions will push Poland away from reliance on domestic coal production, which currently generates over 90% of electricity. Poland's long-term domestic energy priorities call for a shift away from coal to more carbon friendly alternatives, most notably nuclear power (REF A).

Comment: Moving Toward EU-Wide Energy Security

¶8. (S) Poland has shifted from the previous PM Kaczynski-led government's go-it-alone approach to energy security to a mix of GoP-controlled projects and EU-wide efforts. Most important is the shift toward support of interconnections. This support lends credibility to Polish calls for solidarity and allows for a wider range of policy responses including Caspian engagement, a southern corridor, and meaningful gas-sharing in case of emergencies. Like most of its EU counterparts, Poland is still reluctant to abandon its national champions in favor of a common energy market, but they now recognize the limitations of local monopolies. They are taking steps -- looking to increase domestic production, interconnections, LNG, reserves -- to ensure supplies in the event of a larger gas disruption. They are also looking for alternatives to reliance on gas and carbon-intensive coal -- specifically nuclear energy and clean coal technologies. In Brussels, they seek regional energy security also to push their EU partners away from reliance on Russian gas. They fear that such reliance, and the accompanying web of Gazprom-EU links, could again push the EU onto the sidelines as they believe it did during the Georgia invasion of 2008 and the early stages of this latest Russia-Ukraine gas crisis (REF D).
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